

**Letter Report: Attestation Review of the  
Internal Revenue Service's Fiscal Years 1999  
and 2000 Office of National Drug Control  
Policy Accounting Submissions**

**January 2001**

**Reference Number: 2001-10-044**

**This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.**



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

January 31, 2001

MEMORANDUM FOR LAWRENCE W. ROGERS  
ACTING CHIEF FINANCIAL OFFICER

A handwritten signature in cursive script, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner  
Deputy Inspector General for Audit

SUBJECT: Letter Report – Attestation Review of the Internal Revenue  
Service's Fiscal Years 1999 and 2000 Office of National Drug  
Control Policy Accounting Submissions

This Letter Report presents the results of our Attestation Review of the Internal Revenue Service's Fiscal Years 1999 and 2000 Office of National Drug Control Policy (ONDCP) Detailed Accounting Submissions. In summary, except for one matter concerning fiscal year 1999 documentation, nothing came to our attention that caused us to believe that the assertions associated with the Submissions are not presented, in all material respects, in accordance with ONDCP-established criteria.

We have included your comments agreeing with our conclusions as Appendix III to this report.

Copies of this report are also being sent to Internal Revenue Service and Department of Treasury managers who are affected by the report conclusions. Please contact me at (202) 622-6510, or Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500 if you have questions.

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## **Objective and Scope**

*Our objective was to perform an attestation review of the assertions presented in the IRS' Fiscal Years 1999 and 2000 ONDCP Detailed Accounting Submissions.*

Our objective was to perform an attestation review of the assertions presented in the Internal Revenue Service's (IRS) Fiscal Years 1999 and 2000 Office of National Drug Control Policy (ONDCP) Detailed Accounting Submissions for the purpose of expressing a conclusion on whether the assertions are made in conformance with established criteria. This review was conducted as required by the National Drug Enforcement Policy (21 U.S.C. § 1704(d)) and the ONDCP Circular, *Annual Accounting of Drug Control Funds*, dated December 17, 1999.

We conducted our fieldwork in the IRS' Headquarters offices of the Chief Financial Officer (CFO) and Chief, Criminal Investigation (CI) during the period of November 2000 through January 2001. Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the ONDCP Detailed Accounting Submission assertions. Accordingly, we do not express such an opinion.

The IRS' Fiscal Years 1999 and 2000 submissions included additional information concerning Interagency Crime Drug Enforcement obligations, which is not required by the ONDCP Circular. This information was not reviewed, and accordingly, we do not express any form of assurance on it.

Major contributors to this report are listed in Appendix I. Appendix II contains the Report Distribution List. Appendix III contains Management's Response.

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## **Background**

The Anti-Drug Abuse Act of 1988 establishes as a policy goal the creation of a drug-free America. A key provision of the Act is the establishment of the ONDCP to set priorities, implement a national strategy, and certify federal drug control budgets. The IRS' Narcotics Program supports the National Drug Control Strategy through continued support of joint agency task forces including the Interagency Crime Drug Enforcement task force and High Intensity Drug Trafficking Area task force, through the use of asset forfeiture, assistance in developing money laundering and asset forfeiture legislation, and international training and assistance programs.

The Strategy established five goals and thirty-two supporting objectives as the basis for a coherent, long-term national effort. The IRS' CI focuses on two goals, which are to reduce drug-related crime and to reduce sources of supplies.

The National Drug Control Program agencies are required by 21 U.S.C. § 1704(d) to submit to the Director of the ONDCP, not later than February 1 of each year, a detailed accounting of all funds expended (the ONDCP Circular requires amounts obligated) by the agencies for National Drug Control Program activities during the previous fiscal year. Further, it requires such accounting to be authenticated by the Inspector General of each agency prior to its submission.

## **Results**

We reviewed the accompanying IRS ONDCP Detailed Accounting Submissions and assertions for the Fiscal Years ended September 30, 1999, and September 30, 2000 (Appendix IV). These submissions, including the assertions made, were prepared pursuant to 21 U.S.C. § 1704(d) and the ONDCP Circular, *Annual Accounting of Drug Control Funds*, dated

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December 17, 1999, and they are the responsibility of the IRS.

The assertions required by Section 5.b. of the ONDCP Circular include that the methodology used is reasonable and accurate, the methodology disclosed was the actual methodology used, and the obligations presented are associated with a financial plan that properly reflects changes if made. ONDCP-established criteria include well-documented sources of data with demonstrated connection to drug control obligations, documented and explained estimations, complete reporting of data, fair presentation of data from financial systems, well-documented calculations, and association with a financial plan that, if revised, properly reflects those revisions, including ONDCP's approval of reprogrammings in excess of \$5 million.

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**Fiscal Year 1999 Office of National Drug Control  
Policy Detailed Accounting Submission  
Assertions Were Presented Fairly**

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The IRS could not provide original documentation supporting total CI obligations that are extracted, at year-end, from the Automated Financial System/Budget Formulation System. We were able, however, to obtain other documentation used in the methodology.

Based on our review, with the exception of the matter described in the preceding paragraph, nothing came to our attention that caused us to believe that the accompanying IRS Fiscal Year 1999 ONDCP Detailed Accounting Submission assertions are not presented, in all material respects, in accordance with ONDCP-established criteria.

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**Fiscal Year 2000 Office of National Drug Control  
Policy Detailed Accounting Submission  
Assertions Were Presented Fairly**

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Based on our review, nothing came to our attention that caused us to believe that the accompanying IRS Fiscal Year 2000 ONDCP Detailed Accounting Submission assertions are not presented, in all material respects, in accordance with ONDCP-established criteria.

Management's Response: IRS management agreed with the results of our attestation review.

\* \* \* \* \*

While this report is an unrestricted public document, the information it contains is intended solely for the use of the IRS, the United States Department of the Treasury, the ONDCP and the Congress. It is not intended to be, and should not be, used by anyone other than these specified parties.

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**Appendix I**

**Major Contributors to This Report**

Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)

John R. Wright, Director

Thomas Brunetto, Audit Manager

Terrey Haley, Senior Auditor

Melinda Pope, Senior Auditor

Richard Loudon, Auditor

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**Appendix II**

**Report Distribution List**

Commissioner N:C  
Deputy Commissioner N:DC  
Chief Counsel CC  
Chief, Criminal Investigation CI  
National Taxpayer Advocate TA  
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O  
Director, Legislative Affairs CL:LA  
Management Controls Coordinator A  
Department of the Treasury, Deputy Chief Financial Officer MD  
Audit Liaisons:  
    Chief Financial Officer N:CFO  
    Chief, Criminal Investigation CI



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**Appendix III**

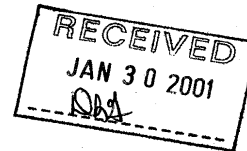
**Management's Response to the Draft Report**



CHIEF FINANCIAL OFFICER

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

January 30, 2001



MEMORANDUM FOR PAMELA J. GARDINER  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Lawrence W. Rogers *Lawrence W. Rogers*  
Acting Chief Financial Officer

SUBJECT: Draft Letter Report – Attestation Review of the  
Internal Revenue Service's Fiscal Years 1999 and  
2000 of National Drug Control Policy (ONDCP)  
Accounting Submissions

I have read the TIGTA report of the Service' FY 1999 and FY 2000 Office of National Drug Control Policy (ONDCP) Accounting budget submissions and I agree with TIGTA's attestation of the contents.

I have not identified any information in the report that needs to be protected under the Freedom of Information Act or other applicable laws.

If I can be of further assistance or if you have any questions please call Margaret Willard in the Office of Budget Formulation on (202) 622-4731.

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**Appendix IV**

**INTERNAL REVENUE SERVICE  
ANNUAL ACCOUNTING OF DRUG CONTROL FUNDS**

**DETAILED ACCOUNTING SUBMISSION**

**a. Table of FY 1999 Drug Control Obligations**

<b>Drug Resources by Goal</b>	<b>IRS - CI</b>	<b>ICDE</b>
<b>Goal 2</b>	\$40,790	\$22,210
<b>Goal 5</b>	<u>\$31,620</u>	<u>\$14,806</u>
<b>Total:</b>	\$72,410	\$37,016
<b>Drug Resources by Function</b>		
<b>Investigations</b>	\$54,731	\$37,016
<b>Intelligence</b>	\$16,292	0
<b>International</b>	<u>\$1,387</u>	<u>0</u>
<b>Total:</b>	\$72,410	\$37,016
<b>Drug Resources by Decision Unit</b>		
<b>Narcotic Crimes</b>	\$57,204	\$37,016
<b>Currency Transaction Reports</b>	<u>\$15,206</u>	<u>0</u>
<b>Total:</b>	\$72,410	\$37,016

**(1.) Drug Methodology**

- The Internal Revenue Service (IRS) Drug Control Budget contains two components: Criminal Investigation (CI) Narcotics Related Financial Crime Program and Currency Reporting Forms Processing.
- IRS-CI dedicates 22 to 24 percent of its Direct Investigative Time (DIT) to the investigation and prosecution of narcotics organizations and narcotics money laundering organizations, supporting Goals 2 and 5 of the National Drug Control Strategy. Based on the review of IRS-CI by the Honorable William H. Webster, IRS Commissioner Rossotti has stated that IRS-CI will continue working narcotics related investigations. However, IRS-CI will limit its support to the Interagency Crime Drug Enforcement (ICDE) narcotics investigations to the amount funded by the ICDE reimbursement, so as not to deplete the level of resources devoted to its primary mission of tax compliance. Therefore, the percentage of Direct Investigative Time (DIT) that IRS-CI devotes to narcotics-related financial crime investigations will decrease in the future relative to reimbursable funding levels.

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- Currency Reporting Forms Processing: IRS resources are expended to process Currency Reporting Forms required by the Bank Secrecy Act (Title 31), namely, Currency Transaction Reports (CTR's) and Casino Currency Transaction Reports (C-CTR's), Suspicious Activity Reports (SAR's), and Foreign Bank Account Reports (FBAR's) as well as Form 8300, Cash Payments in Excess of \$10,000 Received in a Trade or Business, required by the Internal Revenue Code (Title 26). The forms are processed for reporting banks, financial institutions, and money services businesses as well as retail businesses. This program activity is reported in a separate account in the IRS's budget activities and is scored as 100 percent drug related, supporting Goals 2 and 5 of the National Drug Control Strategy.

**(2.) Methodology Modifications**

None

**(3.) Material Weaknesses or Other Findings**

None

**(4.) Reprogramming or Transfers**

None

**(5.) Other Disclosures**

This is the first year for this accounting. The information reflects the FY 1999 Service's position in relationship to the drug budget and no policy variances can be assumed.

**b. Assertions**

**(1.) Drug Methodology** - The methodology used to calculate obligations of prior year budgetary resources is reasonable and accurate.

**(a.) Data**

Data is retrieved from the Criminal Investigation Management Information System (CIMIS) to determine the number of FTE's used in drug control activities. Special agents submit CIMIS time reports monthly detailing their activities relating to investigations (direct investigative time or DIT). Each investigation is associated with a specific program and sub-program area.<sup>1</sup> A percentage of DIT used on each program area is calculated monthly with a final annual percentage determined after the close of the fiscal year. The annual percentage of DIT used for the Narcotics-

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<sup>1</sup> Criminal Investigation has three program areas: the Legal Income Tax Crimes Program, the Illegal Income Financial Crimes Program and the Narcotics-Related Financial Crimes Program.

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Related Financial Crimes program is applied to realized FTE as calculated by the IRS Automated Financial System (AFS) to determine the number of FTE expended on the program. Reimbursed FTE are subtracted from the total program FTE's to determine the IRS funded portion of the Criminal Investigation Narcotics-Related Financial Crimes Program.

The annual percentages of DIT used for the OCDETF and HIDTA/OCDETF Narcotics-Related Financial Crimes sub-programs are applied to realized FTE as calculated by the IRS Automated Financial System (AFS) to determine the number of FTE expended on the sub-programs. Reimbursed FTE for these sub-programs are limited to resources received from Treasury's ICDE appropriation. Non-reimbursed FTE used on the OCDETF and HIDTA/OCDETF sub-programs are included in the IRS funded portion of the Criminal Investigation Narcotics-Related Financial Crimes Program.

After the number of FTE included in the IRS funded portion of the Criminal Investigation Narcotics-Related Financial Crimes program have been determined, related dollars are calculated using the total IRS-CI budget request and simply dividing this amount by the number of FTE expended.

**(b.) Other Estimation Methods**

None

**(c.) Completeness**

The Internal Revenue Service (IRS) Drug Control Budget contains two components: Criminal Investigation (CI) Narcotics Related Financial Crime Program and Currency Reporting Forms Processing.

**(d.) Financial Systems**

The Service's Automated Financial System (AFS) is the method used for tracking drug-related obligation estimates through a separate coding of earmarked funds.

**(2) Application of Methodology** -The methodology disclosed in this section was the actual methodology used to generate the table required by Section 5A. Calculations are sufficiently well documented to independently reproduce this data and ensure consistency of data between reporting years.

CIMIS tracks DIT of agents by program area. The annual percentage of DIT related to Narcotics-Related Financial Crimes Programs is then applied to realized FTE as calculated by AFS. The reimbursed FTE are subtracted from the total program FTEs to determine the IRS funded Narcotics-Related Financial Crime program. IRS-CI

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then devotes 60% of narcotics-related DIT in support of Goal 2 of the National Drug Control Strategy; 40% to support Goal 5.

New initiatives are costed using the Service's established Unit Cost Rates (UCRs) for the budget year.

**(3) Financial Plan – Including Reprogramming or Transfers -** The data presented is associated with obligations against a financial plan and properly reflects any revisions occurring during the fiscal year including ONDCP's approval of reprogrammings or transfers affecting drug-related resources in excess of \$5 million.

There were no revisions.

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**INTERNAL REVENUE SERVICE  
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**DETAILED ACCOUNTING SUBMISSION**

**a. Table of FY 2000 Drug Control Obligations**

<b>Drug Resources by Goal</b>	<b>IRS - CI</b>	<b>ICDE</b>
<b>Goal 2</b>	\$41,318	\$22,090
<b>Goal 5</b>	<u>\$32,294</u>	<u>\$14,726</u>
<b>Total:</b>	\$73,612	\$36,816
<b>Drug Resources by Function</b>		
<b>Investigations</b>	\$54,145	\$36,816
<b>Intelligence</b>	\$17,574	0
<b>International</b>	<u>\$1,893</u>	<u>0</u>
<b>Total:</b>	\$73,612	\$36,816
<b>Drug Resources by Decision Unit</b>		
<b>Narcotics Crimes</b>	\$56,478	\$36,816
<b>Currency Transaction Reports</b>	<u>\$17,134</u>	<u>0</u>
<b>Total:</b>	\$73,612	\$36,816

**(1.) Drug Methodology**

- The Internal Revenue Service (IRS) Drug Control Budget contains two components: Criminal Investigation (CI) Narcotics Related Financial Crime Program and Currency Reporting Forms Processing.
- During FY 2000 IRS-CI dedicated 21.47 percent of its Direct Investigative Time (DIT) to the investigation and prosecution of narcotics organizations and narcotics money laundering organizations, supporting Goals 2 and 5 of the National Drug Control Strategy.
- Currency Reporting Forms Processing: IRS resources are expended to process Currency Reporting Forms required by the Bank Secrecy Act (Title 31), namely, Currency Transaction Reports (CTR's) and Casino Currency Transaction Reports (C-CTR's), Suspicious Activity Reports (SAR's), and Foreign Bank Account Reports (FBAR's) as well as Form 8300, Cash Payments in Excess of \$10,000 Received in a Trade or Business, required by the Internal Revenue Code (Title 26). The forms are processed for reporting banks, financial institutions, and money services businesses as well as retail businesses. This program activity is reported in a separate account in the IRS's budget activities and is scored as 100 percent drug related, supporting Goals 2 and 5 of the National Drug Control Strategy.

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**(2.) Methodology Modifications**

None

**(3.) Material Weaknesses or Other Findings**

None

**(4.) Reprogramming or Transfers**

None

**(5.) Other Disclosures**

The information reflects the FY 2000 Service's position in relationship to the drug budget and no policy variances can be assumed.

**b. Assertions**

**(1.) Drug Methodology** - - The methodology used to calculate obligations of prior year budgetary resources is reasonable and accurate.

**(c.) Data**

Data is retrieved from the Criminal Investigation Management Information System (CIMIS) to determine the number of FTE's used in drug control activities. Special agents submit CIMIS time reports monthly detailing their activities relating to investigations (direct investigative time or DIT). Each investigation is associated with a specific program and sub-program area.<sup>1</sup> The percentage of DIT used on each program area is calculated monthly with a final annual percentage determined after the close of the fiscal year. The annual percentage of DIT used for the Narcotics-Related Financial Crimes program is applied to realized FTE as calculated by the IRS Automated Financial System (AFS) to determine the number of FTE expended on the program. Reimbursed FTE are subtracted from the total program FTE's to determine the IRS funded portion of the Criminal Investigation Narcotics-Related Financial Crimes Program.

After the number of FTE included in the IRS funded portion of the Criminal Investigation Narcotics-Related Financial Crimes program have been determined, related dollars are calculated using the total IRS-CI budget obligations and simply dividing this amount by the number of FTE expended.

**(b.) Other Estimation Methods**

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<sup>1</sup> Criminal Investigation has three program areas: the Legal Income Tax Crimes Program, the Illegal Income Financial Crimes Program and the Narcotics-Related Financial Crimes Program.

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None

**(c.) Completeness**

The Internal Revenue Service (IRS) Drug Control Budget contains two components: Criminal Investigation (CI) Narcotics Related Financial Crime Program and Currency Reporting Forms Processing.

**(d.) Financial Systems**

The Service's Automated Financial System (AFS) is the final authority for IRS resource obligations.

**(2) Application of Methodology** - The methodology disclosed in this section was the actual methodology used to generate the table required by Section 5A. Calculations are sufficiently well documented to independently reproduce this data and ensure consistency of data between reporting years.

CIMIS tracks DIT of agents by program area. The annual percentage of DIT related to Narcotics-Related Financial Crimes Programs is then applied to realized FTE as calculated by AFS. The reimbursed FTE are subtracted from the total program FTEs to determine the IRS funded Narcotics-Related Financial Crime program. IRS-CI devotes 60% of narcotics-related DIT in support of Goal 2 of the National Drug Control Strategy; 40% to support Goal 5.

New initiatives are costed using the Service's established Unit Cost Rates (UCRs) for the budget year.

**(3) Financial Plan – Including Reprogramming or Transfers** - The data presented is associated with obligations against a financial plan and properly reflects any revisions occurring during the fiscal year including ONDCP's approval of reprogrammings or transfers affecting drug-related resources in excess of \$5 million.

There were no revisions.